

2005 PACT RULES

SECTION 1 DEFINITIONS

Additional definitions and a list of Administrative Fees are available in the Disclosure Statement.

1.00 "Actuarial Assessment" means an additional PACT Contract amount assessed to compensate the Trust Fund for loss of earnings. For an unpaid or partially paid lump sum account, this amount will be 1% of the outstanding balance per month after the payment due date. For the reinstatement of a Monthly Payment Plan the Actuarial Assessment is the difference between the future value of the prescribed monthly payments and the future value of the payments actually made by the Purchaser. The Actuarial Assessment for a change from the Extended Payment Plan to the 5-Year Payment Plan is the difference between the future value of the PACT Contract payments of each plan.

1.02 "Current Tuition Value" means the weighted average (by resident headcount) of in-state tuition and Qualified Fees for the previous fall term at the Alabama four-year public postsecondary institutions.

1.02 "Interest" means the lesser of the (1) average of the passbook savings interest rates paid by the five largest banking institutions in the state of Alabama as of September 30th of each year or (2) 5%.

1.03 "Matriculation" means the process of enrolling and attending an institution of higher education.

1.04 "Qualified Fees" means those fees approved by the Board which are required as a condition of enrollment for all students attending the Eligible Educational Institution in which the Designated Beneficiary is enrolled. A list of Qualified Fees for Alabama public institutions is available at www.treasury.alabama.gov.

1.05 "Redemption Value" means the sum of PACT Contract payments made, less any Administrative Fees and benefits paid, plus Interest, as of the date of cancellation.

1.06 "Substitute Beneficiary" means an Immediate Family Member of the Designated Beneficiary as defined by the Code and named by the Purchaser to receive, in place of the originally named Designated Beneficiary, the benefits provided under the PACT Contract.

1.07 "Successor Account Owner" means an individual, named by the Purchaser, who meets the requirements to be a Purchaser and becomes the owner of the PACT Contract in the event of death of the Purchaser.

SECTION 2 ENROLLMENT PERIOD/PACT APPLICATION

2.00 PACT Enrollment Period -A PACT Contract may be purchased during the enrollment period. Applications accepted after the enrollment period will require applicable Late Fees and an Actuarial Assessment.

2.01 Application -Any individual, corporation, trust, charitable organization, or other entity desiring to enter into a PACT Contract on behalf of a Designated Beneficiary must submit a completed and signed application during the enrollment period.

A PACT application may be obtained from the Treasurer's office, by calling PACT at 1-800-ALA-PACT or 334-242-7514, or visiting www.treasury.alabama.gov.

2.02 Participation and Payment Schedule -After review and acceptance of the application, the Purchaser will be mailed a Participation and Payment Schedule which details information submitted in the application. It is the Purchaser's responsibility to verify the accuracy of this information and request any applicable changes within 60 days of receipt.

2.03 Projected College Entrance Date – At the time of application, the Designated Beneficiary's Projected College Entrance Date will be calculated to correspond to the beneficiary's current age and/or grade. This date is provided in the Participation and Payment Schedule and should be verified by the Purchaser. The Purchaser may request a change in the Projected College Entrance Date by completing a Certification Form within 60 days of receipt of the Participation and Payment Schedule. Thereafter, a written request should be submitted to change the Projected College Entrance Date. Additional PACT Contract payments, as well as an Actuarial Assessment will be applied if the date is changed to an earlier year.

SECTION 3

CONTRACT PURCHASER/TRANSFER OF CONTRACT OWNERSHIP

3.00 Purchaser Eligibility -The Purchaser of a PACT Contract may be a natural person, a corporation, a trust, or a charitable organization. The Purchaser, if a natural person, must be nineteen (19) years of age or older, or must be represented by a court appointed conservator or guardian, or a trustee, or a designated custodian under the provisions of Title 26-2-20, Code of Alabama, 1975, (as last amended).

3.01 Nonacceptance of the Purchaser's Application -A prospective Purchaser may be denied a PACT Contract if:

- (1) The proposed beneficiary is not an eligible beneficiary;
- (2) The Purchaser fails to submit the application during the enrollment period;
- (3) The Purchaser submits an application with incomplete information or without the Application Fee or Purchaser's signature;
- (4) The Board determines that it is advisable to limit the number of PACT Contracts sold.

3.02 Purchaser's Rights – The following are rights reserved strictly for the Purchaser:

- (1) Voluntary cancellation of the PACT Contract or reinstatement;
- (2) Right to any Refund;
- (3) Right to make changes to the PACT Contract;
- (4) Right to restrict the use of PACT Contract benefits;
- (5) On-line access to the PACT Account(s) (Available once an account has been established through a link at www.treasury.alabama.gov).

3.03 Number of Purchasers per PACT Contract-Only one (1) individual or entity may be named on each PACT application and in the PACT Contract as the Purchaser. Joint Purchasers are not permitted. However, a Successor Account Owner may be designated by the Purchaser.

3.04 Transfer of PACT Contract Ownership -All requests to transfer ownership of the PACT Contract to another qualified Purchaser must be submitted on the official form. If the current Purchaser has died or has become disabled and cannot furnish a signature, proof of death or disability and a copy of the section from the will evidencing the authority to make the change, Letters Testamentary, or Power of Attorney must accompany the request for a change in Purchaser. A fee is charged for this service. This fee is waived for death of the Purchaser.

3.05 Successor Account Owner – If a Successor Account Owner is named on the account, the transfer of ownership will occur when a copy of the death certificate of the Purchaser is received. A form to name a Successor Account Owner can be requested from PACT. The Successor must meet the requirements of a qualified Purchaser.

SECTION 4 **DESIGNATED BENEFICIARY/BENEFICIARY SUBSTITUTION**

4.00 Beneficiary Eligibility-An individual may be named the original Designated Beneficiary of a PACT Contract if such individual meets ALL of the following requirements:

- (1) The individual is under the age of eighteen (18) on the first day of the PACT enrollment period;
- (2) The individual has not completed the ninth (9th) grade as of the first day of the PACT enrollment period in question;
- (3) The individual has been born at the time the application is submitted.
- (4) The individual must be a U.S. citizen, a permanent resident alien, or a dependent of a U.S. citizen or of a permanent resident alien.

4.01 Beneficiary Substitutions-The benefits of a PACT Contract may be transferred to an eligible substitute beneficiary. A fee is charged for this service, and is waived for death of the beneficiary. All requests for a "Beneficiary Substitution" must be submitted on the official form.

To qualify, the substitute beneficiary must meet all of the following requirements:

- (1) The substitute beneficiary must be born;
- (2) The substitute beneficiary must be an Immediate Family Member of the original beneficiary as defined by the Code ;
- (3) The substitute beneficiary must not have an active PACT Contract;
- (4) The substitute beneficiary must assume the same ten year period for the use of PACT Contract benefits as the original Designated Beneficiary.

Furthermore, if the Designated Beneficiary has utilized PACT Contract benefits, the following additional requirements apply:

- (5) There must be at least fifteen (15) semester hour of tuition remaining; and
- (6) The beneficiary substitution must occur prior to graduation of the Designated Beneficiary.

If the substitution occurs before the Projected College Entrance Date of the Designated Beneficiary has been reached and the substitute beneficiary is older than the original Designated Beneficiary, an Actuarial Assessment will be assessed. In the event of a beneficiary substitution to a younger beneficiary, monies previously paid to PACT will not be refunded.

4.02 Use of Benefits - No benefits will be paid for the substitute beneficiary prior to the date of the substitution.

4.03 Designated Beneficiary – The Designated Beneficiary is the only individual eligible to receive PACT Contract benefits.

SECTION 5 **THE PACT CONTRACT**

5.00 General-The PACT Contract shall consist of the completed application signed by the Purchaser, the Participation and Payment Schedule, and the Disclosure Statement and Rules.

5.01 PACT Contract Term- Benefits under a PACT Contract may be received for up to a ten (10) year period after the Projected College Entrance Date of the original Designated Beneficiary.

5.02 PACT Contract Term Expiration - If a PACT Contract has not been canceled or terminated and if the Designated Beneficiary's rights under the PACT Contract have not been fully exercised within ten (10) years from the Projected College Entrance Date of the original Designated Beneficiary, or from the actual college entrance date for an accelerated student, reasonable effort will be made to locate the Purchaser. If the Purchaser cannot be located, PACT will presume the Redemption Value of the contract abandoned property and will transfer this amount to the Unclaimed Property Division of the State Treasurer's Office according to Code of Alabama, Title 35, Chapter 12.

5.03 PACT Contract Modifications-All requests by Purchasers for a modification of the PACT Contract provisions must be submitted in writing and must be accompanied by the applicable Administrative Fee. A list of these fees is available in the Disclosure Statement. Forms for most PACT Contract modifications are available on line or by request from PACT.

5.03 PACT Contract Prices-PACT Contract prices will be established by the Board for each enrollment period. PACT Contract prices do not include the Application Processing Fee, but do include a nonrefundable Account Maintenance Fee. After a Purchaser has entered into a PACT Contract, the PACT Contract price will not change, unless otherwise specified herein.

SECTION 6

PACT CONTRACT PAYMENTS

6.01 PACT Contract Payments-PACT Contract payments are based on the age/grade of the qualified beneficiary and are due on the first day of the month. Monthly payments are calculated based on an implied rate of interest and include a monthly Account Maintenance Fee.

PACT Contract payment schedules are as follows:

- (a) A lump sum payment due in full on November 1; or
- (b) Monthly payments over a period of sixty (60) months. The payments shall begin on November 1 and will continue on a monthly basis thereafter until the PACT Contract is fully paid. The amount of the monthly payment is specified in the Participation and Payment Schedule. The sixty (60) month payment option is not available for beneficiaries who are in the eighth (8th) or ninth (9th) grade; or
- (c) Extended monthly payments beginning on November 1 and continuing on a monthly basis until May of the Projected College Entrance Date of the qualified beneficiary. The amount of the monthly payment is specified in the Participation and Payment Schedule.

6.02 Change in PACT Contract Payment Schedule-The Purchaser may request a change in payment schedule any time during the enrollment period through the 10th day of November without incurring a fee. After this time, a fee will be charged. Additional amounts may be due when changing from the extended to the five-year monthly plan.

6.03 PACT Contract Payment Due Date – All PACT Contract payments are due on the first day of the month and are delinquent after the 15th day of the month. A Late Fee is assessed for all delinquent payments.

6.04 PACT Contract Payment Methods- The following payment methods are available to the Purchaser:

- (1) Payment by coupon book;
- (2) Automatic deduction from a bank account; or

(3) Payroll deduction.

6.05 Early Payoff- Purchasers electing a monthly payment plan may pay off the plan early.

6.06 Advance Payments – The Purchaser can make payments larger than the specified payment amount or more frequently than monthly. Provided the account remains current with monthly payments and no outstanding fees, advance payments will result in an earlier pay off .

SECTION 7

PACT CONTRACT CANCELLATION/REINSTATEMENT

7.01 Voluntary PACT Contract Cancellation –The Purchaser can request cancellation of a PACT Contract at any time by providing a signed written request.

7.02 Involuntary PACT Contract Cancellation – A PACT Contract will be automatically cancelled if PACT Contract payments are 6 months (180 days) in default or if no payment is received within 45 days of the first payment due date.

7.03 Reinstatement of a Cancelled Account-If a PACT Contract has been cancelled, the Purchaser may request reinstatement. The request must be made by the Purchaser within 6 months of cancellation. The amount required to bring the account current, including the total of all payments to date, all outstanding fees and an Actuarial Assessment, must be paid in full before the PACT Contract will be reinstated and beneficiary's right to receive PACT Contract benefits reinstated.

SECTION 8

PACT CONTRACT REFUNDS/OVERPAYMENTS

8.00 General - Refunds will be paid to the Purchaser.

8.01 Refund Amount –PACT Contract refund amounts will be the Redemption Value of the PACT Contract.

8.02 No Refund - If the Designated Beneficiary achieves a baccalaureate degree in fewer than the maximum number of credit hours provided under a PACT Contract, a refund will not be available. As soon as a Designated Beneficiary attains a baccalaureate degree, and/or utilizes the total number of credit hours provided under the PACT Contract, the PACT Contract is terminated.

8.03 Refund in the Event of Death or Disability, Receipt of a Full or Partial Scholarship or Matriculation in a Military Academy of the Beneficiary - In any of these events, the Cancellation Fee will be waived.

8.04 Refunds for PACT Contract Purchased Prior to 1996 - For PACT Contracts purchased prior to 1996, cancellation based on death/disability of the Designated Beneficiary, or Matriculation in a Military Academy or foreign institution, will result in a refund as defined in the Rules of the year the PACT Contract was purchased.

8.05 Refund Resulting from Overpayment – Once a PACT Contract is paid in full, any overpayment on the account will be refunded to the Purchaser.

SECTION 9

PACT CONTRACT BENEFITS

9.01 PACT Contract Benefits-The PACT Contract provides payment of the following:
(1) Payment of Alabama instate public undergraduate tuition of not more than one hundred thirty-five (135) semester hours or the academic equivalent units on a quarter

system (202.5) or other academic term basis, OR payment of instate tuition until award of a baccalaureate degree to the Designated Beneficiary, whichever comes first; AND

(2) Payment of Qualified Fees for not more than eight (8) registrations on a semester system, twelve (12) registrations on a quarter system, or the completion of 135 semester hours or the academic equivalent units on a quarter system or other academic term basis, or until award of a baccalaureate degree to the Designated Beneficiary, whichever comes first.

9.02 Payment to Alabama Public Eligible Educational Institutions – The Purchaser must inform the Eligible Educational Institution that PACT Contract benefits are available. The institution has access to a website to verify eligibility. The institution will invoice PACT after the end of the official drop/add period. Payment is made directly to the Eligible Educational Institution for undergraduate tuition/Qualified Fees only.

9.03 Alabama Independent/Private, an Out-of-State or Foreign Eligible Educational Institution- Payment will be made based on the Current Tuition Value. The payment will not exceed the actual cost of undergraduate tuition plus Qualified Fees. Payment is made directly to the institution. A Processing Fee is deducted from the amount paid to the Eligible Education Institution each term.

Payment of PACT Contract benefits to these institutions will be made only when all of the following have occurred:

- (1) The Purchaser has submitted a written request providing information on the Eligible Educational Institution the beneficiary will attend. The request should be submitted no less than sixty (60) days in advance of the first academic term for which PACT Contract benefits are to be paid;
- (2) PACT has received a valid invoice from the beneficiary's institution after the end of the official drop/add period;
- (3) For foreign institutions, the institution must agree to accept payment in United States currency.

If the Designated Beneficiary takes course credit at a foreign institution while attending a United States Eligible Educational Institution and that institution invoices for the credits, payment will be made at the customary charges of that institution.

9.05 Current Tuition Value – The following rates apply for the 2005 calendar year:

Tuition per semester hour - \$141.47	Qualified Fees per semester - \$62.50
Tuition per quarter hour - \$94.31	Qualified Fees per quarter - \$41.67

9.06 Advancement of PACT Contract Benefits. – PACT Contract benefits can be used up to three (3) years in advance of the Projected College Entrance Date. If the beneficiary advances in school after the PACT Contract is purchased or elects to take college courses while attending high school, there will be no adjustment in the PACT Contract payment schedule and no additional payment will be required. However, the ten year period for the use of benefits will commence on the advanced Projected College Entrance Date. The Purchaser should provide written notice 60 days in advance of intention to advance benefits and the PACT Contract must be paid in full.

9.07 Identification for Designated Beneficiaries-A beneficiary will receive a letter each summer during eligibility. A list of eligible beneficiaries is made available to the colleges/universities in the State of Alabama.

9.08 Payment of Benefits/No adjustment -Any credit hours paid on behalf of a Designated Beneficiary reduce the remaining available credit hours under the PACT Contract, even if the credit hours are not counted toward a college degree. Once an invoice has been paid, there will be no adjustment to the beneficiary's account unless an error was made by the institution.

9.09 Payment of Backdated Invoices – The Purchaser is responsible for instructing the Eligible Educational Institution to invoice PACT on behalf of the Designated Beneficiary. PACT will not pay previous invoices submitted for payment more than a year from the date of the term when the benefits were received.

9.10 Scholarship – If the Designated Beneficiary receives a scholarship, the Purchaser can request any of the following:

- (1) For the institution to invoice PACT for tuition/fees and, if applicable, monies credited to the student's account may be applied to other education expenses;
- (2) To transfer the benefit to a qualified beneficiary who does not have a PACT Contract; or
- (3) Cancellation of the PACT Contract. The Cancellation Fee will be waived.

SECTION 10 **ROLLOVERS**

10.01 Rollover from Another Qualified Tuition Program to PACT – PACT will accept rollovers from Qualified Tuition Programs, provided a PACT account has already been established and the appropriate form is completed.

10.02 Rollover from PACT to Another Qualified Tuition Program – A Purchaser may submit a written request for cancellation of the PACT account. A refund check will be issued to the Purchaser. The cancellation letter from PACT may serve as documentation for the new program.

SECTION 11 **SPECIAL PETITION**

11.00 General-Any aggrieved individual or entity desiring to petition for relief from the Rules, may do so by submitting a written notarized petition to the Board. The response to the petition will be in writing to the Petitioner and will be made within ninety (90) days of receipt.

11.01 – Requirements - The following information is required in the petition:

- (1) The name and address of the person requesting relief;
- (2) The specific nature of the relief requested and the specific Rule;
- (3) The name and address of Purchaser/Designated Beneficiary on the disputed PACT Contract;
- (4) The PACT Contract account number(s) of the PACT Contract(s) in question;
- (5) The Social Security number/Tax Identification number of Designated Beneficiary/Purchaser;
- (6) The date and sworn signature of the petitioner.

SECTION 12 **QUALIFIED ENTITIES**

12.00 General- For the purpose of these Rules, the term "Entity" shall mean any corporation, trust, charitable organization, or any other business or organization which is not a natural person.

12.01 Application of the Rules - Unless specifically exempted herein, all Rules pertaining to Purchasers and Designated Beneficiaries apply.

12.02 Naming the Beneficiary-An Entity which purchases a PACT Contract is not required to name the Designated Beneficiary at the time the application is submitted. However, if the Entity submits an application for an unnamed beneficiary, a Projected

College Entrance Date for the unnamed beneficiary must be specified on the application. The age of the unnamed beneficiary on the application will be the normal age for a beneficiary expected to enter college in the academic school year corresponding to the Projected College Entrance Date. For purposes of PACT, the unnamed beneficiary will be called either "John Doe" or "Jane Doe." The beneficiary should be named not less than six (6) months prior to the Projected College Entrance Date specified by the Entity on the application.

12.03 Application- The application must be accompanied with Articles of Incorporation or the Declaration Page of the Trust, whichever is applicable. Furthermore, the Entity must provide its Taxpayer Identification number on the application, and the application must be complete in all other respects.